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Date 8/19/92

Surname [REDACTED]  
JUL 09 1992

[REDACTED]

E.I.N.: [REDACTED]

K.D.O.: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(6) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

You were incorporated under the laws of [REDACTED] on [REDACTED].

Your articles of incorporation state that you were established to "encourage the development and growth of venture capital activities". Your purpose is to "assist entrepreneurs by bringing together service providers, venture capital sources, commercial lending institutions, government, and educational resources". You also state that your members seek to increase the availability of investment capital for future business growth in [REDACTED].

You achieve your purposes through a membership organization that is open to anyone interested in the venture capital process. Membership is comprised of individual entrepreneurs and corporate members whose businesses require high risk financing. These are small businesses that are closely held, in need of further capitalization and, generally, less than five years old. Your membership also includes representatives of state agencies, as well as bankers, attorneys, accountants, and others who provide services to small businesses.

You hold a monthly membership meeting, that is also open to nonmembers for a fee. The meeting agenda includes a guest speaker and a presentation by an entrepreneur of his or her business plan for membership review. A disclaimer is read at meetings stating that the organization does not endorse the accuracy of speakers' statements and that it does not make any warranties regarding the business or investment opportunities presented at meetings.

You publish a monthly newsletter that presents the business proposals of your members, as well as services and information of interest to small businesses. You also publish a membership directory.

You previously applied for recognition of exemption under section 501(c)(6) on [REDACTED] and a proposed ruling was issued on [REDACTED] holding that you do not qualify for exemption under section 501(c)(6) of the Code. This proposed ruling was affirmed in a ruling dated [REDACTED].

Section 501(c)(6) of the Code provides for exemption from federal income tax of "[b]usiness leagues, chambers of commerce, real-estate boards, boards of trade, . . . not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual".

Section 1.501(c)(6)-1 of the Income Tax Regulations provides, in part, that "a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league".

Rev. Rul. 59-391, 1959-2 C.B. 151, holds that an organization whose membership consists of individuals, firms, associations, and corporations, each of whom represents a different trade, business, occupation, or profession, and created for the purpose of exchanging information on business prospects does not qualify for exemption under section 501(c)(6) of the Code. Part of the rationale for the ruling is that members only common business interest was a mutual desire to increase their individual sales.

Rev. Rul. 64-315, 1964-2 C.B. 147, holds that an organization consisting of merchants with businesses in a particular shopping center does not qualify for exemption under section 501(c)(6) because its principle activity is advertising the individual businesses of its members. This activity constitutes a particular service because it provides the membership with a convenience and economy in the operation of their individual businesses.

Rev. Rul. 67-295, 1967-2 C.B., holds that an organization of businessmen holding luncheon meetings where the common problems of a particular industry are discussed may qualify for exemption under section 501(c)(6).

Rev. Rul. 70-641, 1970-2 C.B. 119, involves an organization comprised of individuals from various professions in the field of public health. The organization's activities, which consisted of lectures, seminars, and discussions, sought to provide an interdisciplinary forum for exchanging knowledge and information. The ruling concluded that the organization's activities promoted the members' common business interests by increasing the effectiveness of the interaction among the various professions and solving common business problems. The fact that the members represented various professions did not prevent the organization from qualifying for exemption under section 501(c)(6) because they shared a common business interest in the field of public health.

Rev. Rul. 73-411, 1973-2 C.B. 180, holds that an association whose membership is restricted to and required of the merchants in a particular shopping center does not constitute a chamber of commerce or a board of trade within the meaning of section 501(c)(6).

In Retail Credit Ass'n of Minneapolis v. U.S., 30 F. Supp. 855 (D. Minn. 1938), the Court held that an organization comprised of retail merchants who extended credit to the public in the Minneapolis area qualified for exemption as a business league under section 501(c)(6) of the Code (then section 101(7) of the Revenue Act of 1934, 26 U.S. Code section 103(7)). The organization conducted an advertising campaign to educate the public regarding the advantages of credit accounts and to promote the proper use of credit. The organization also conducted courses on the standardization and improvement of retail merchants' services and business practices. The Court concluded that the organization's purposes and activities promoted the common business interests of retail merchants extending credit to the public in Minneapolis.

In National Muffler Dealers Association, Inc. v. U. S., 440 U.S. 472 (1979), the Supreme Court stated that a "line of business" within the meaning of section 501(c)(6) is interpreted as either an entire industry or all components of an industry within a geographic area.

You have failed to demonstrate that your members are in a common line of business within the meaning of section 501(c)(6). Unlike the organizations in Rev. Rul. 67-295, supra, and Rev. Rul. 70-641, supra, your membership does not represent a specific industry nor various professions within a common business field. Your membership is not comprised of either an entire industry, nor all components of an industry within a geographic area pursuant to National Muffler Dealers Association, supra. Your membership, consisting of small businesses of various types and service providers, is similar to the organization in Rev. Rul. 59-391, supra. Further, just as the membership in that revenue ruling was principally seeking increased sales through the organization's activities, your members are principally seeking further capitalization for their businesses. The mutual need for investment capital does not create a line of business for purposes of section 501(c)(6). The fact that membership in your organization is open to anyone interested in your programs and is not restricted in a manner like the organization in Rev. Rul. 73-411, supra, is not sufficient to meet the line of business requirement under section 501(c)(6) where members do not share a common business interest other than increasing sales.

In addition, like the organization in Rev. Rul. 64-315, supra, your activities are directed to providing individual members and others with an opportunity to advertise their businesses and products. The disclaimer statement that is read at each meeting and the articles in your newsletter show that your main purpose is to provide individual members with opportunities to locate investors for their businesses. This purpose differs from that of the organization in Retail Credit Ass'n of Minneapolis, supra, whose advertising educated the public regarding the advantages of purchasing on credit in general, and was aimed at improving business conditions for all retail stores in the Minneapolis area. In contrast, your activities provide your members with a convenience and economy in the operation of their individual businesses. Thus, your activities constitute the performance of particular services for individual persons, rather than being directed to the improvement of business conditions as a whole.

Accordingly, since your activities are not directed to the improvement of business conditions in a line of business, you are not an organization described in section 501(c)(6) of the Code.

You are required to file federal income tax returns. Since you are a corporation, you must file Form 1120 with the District Director of Internal Revenue for the area in which your principal place of business is located.

[REDACTED]

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted in duplicate within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies of it will be forwarded to the District Director, Los Angeles, California. Thereafter, any questions about your federal income status or the filing of returns should be addressed to that office.

If you decide to protest this proposed ruling, you will expedite our receipt of your communication by placing the following symbols on the envelope as part of our address:

[REDACTED]

Sincerely yours,

[REDACTED]  
[REDACTED]  
Chief, Exempt Organizations  
Rulings Branch 4

cc: DD, Los Angeles  
Attn: EO Group

cc: [REDACTED]  
[REDACTED]

[REDACTED]  
[REDACTED]  
July 7, 1992

[REDACTED]  
[REDACTED]  
7-9-92